

CITY OF PAULLINA, IOWA
INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS

For the Year Ended
June 30, 2015

**CITY OF PAULLINA, IOWA
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CITY OF PAULLINA, IOWA

OFFICIALS

Name	Title	Term Expires
Mike Otto	Mayor	January, 2016
Jay Jones	Council Member	January, 2018
Justin Stamer	Council Member	January, 2016
John Ihle	Council Member	January, 2016
Charles Harper	Council Member	January, 2016
Dan Schreck	Council Member	January, 2018
Sandy Fritz	City Clerk/Administrator	January, 2016
Johnene Altman	Treasurer	January, 2016
Tisha Halverson	Attorney	January, 2016

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Paullina, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Paullina, Iowa as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Paullina, Iowa, as of June 30, 2015, and the respective changes in the cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to that matter.

Emphasis of a Matter

As disclosed in Note 4 to the financial statements, the City of Paullina adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Paullina, Iowa's basic financial statements. The supplementary information on pages 31 through 32 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The management's discussion and analysis, budgetary comparison information, schedule of the City's proportionate share of the net pension liability and schedule of receipts by source and disbursements by function – all governmental funds on pages 4 through 8 and 24 through 30, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2015, on our consideration of the City of Paullina's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Paullina's internal control over financial reporting and compliance.


Certified Public Accountants

Le Mars, Iowa
November 13, 2015

CITY OF PAULLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015

The City of Paullina provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2015. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2014-2015 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 24.3%, or approximately \$254,060 from fiscal year 2014 to fiscal 2015. Property tax increased approximately 11.1%. Taxes collected in fiscal year 2014 totaled \$264,547 and \$293,977 in fiscal year 2015. Local Option Sales Tax receipts decreased \$2,430 from fiscal year 2014 to fiscal year 2015. Intergovernmental receipts decreased 2.3% or \$3,149 from fiscal year 2014 to fiscal year 2015. Sale of Capital Assets decreased from \$301,665 in fiscal year 2014 to \$44,028 in fiscal year 2015 due to the decrease in land sales in the business park.
- Disbursements of the City's governmental activities decreased 23.3% or \$271,847 in fiscal year 2015 from fiscal year 2014. Public Safety decreased \$54,234, culture and recreation decreased \$32,723 due to the completion of the bike trail and the Swanson Complex Cement Project and capital projects decreased \$160,468 due to the completion of the ICON project in the Paullina Business Park.
- The City's total cash basis net position increased 4.3% or approximately \$127,100 from June 30, 2014 to June 30, 2015.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted

accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government –Wide Financial Statements

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Position – Cash Basis reports information which helps answer this question.

The Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Position presents is divided into two kinds of activities:

- Government Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, the sanitary sewer system and the electric system. These activities are financed primarily by user charges

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, and 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The city maintains four Enterprise Funds to provide separate information for the Water Fund, Electric Fund, Sewer Fund and Telecom Fund, considered to be major funds of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased \$128,540. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Position of Governmental Activities		
	Year Ended June 30,	
	2015	2014
Receipts		
Property Taxes	\$ 293,977	\$ 264,547
TIF Revenue.....	7,975	7,494
Local Option Sales Tax.....	106,719	109,149
Licenses and Permits	3,464	2,869
Use of Money and Property	21,844	21,872
Charges for Services	122,131	118,176
Intergovernmental	136,178	139,327
Special Assessment	3,096	3,278
Miscellaneous.....	53,844	78,939
Sales of Capital Assets	44,028	301,665
Total Receipts.....	793,256	1,047,316
Disbursements:		
Public Safety.....	219,439	273,673
Public Works.....	169,822	169,761
Health and Social Services.....	4,000	3,600
Culture and Recreation.....	130,587	163,310
Community and Economic Development.....	317	26,708
General Government	113,699	109,601
Debt Service	103,335	105,925
Capital Projects.....	154,235	314,703
Total Disbursements	895,434	1,167,281
(Decrease) in Cash Basis Net Position – Before Transfers	(102,178)	(119,965)
Total other financing sources.....	230,718	252,898
Cash Basis Net Position – Beginning of Year.....	1,035,536	902,593
Cash Basis Net Position – End of Year	\$ 1,164,076	\$ 1,035,536

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

The Cities property tax rate for fiscal year 2015 was at \$11.59378 versus 2014 at \$11.01987. The Council continues to try to attain a lower tax rate due to utility rate increases and street special assessments for some residents.

The cost of all governmental activities decreased this year by 23.3%, to \$895,434 compared to \$1,167,281 last year. The decrease in disbursements is due to the completion of the bike trail, sports complex cement, Icon's water and sewer line and a police vehicle was not purchased in FY 14-15.

Changes in Cash Basis Net Position of Business Type Activities

	Year Ended June 30,	
	2015	2014
Receipts:		
Operating Receipts:		
Water	\$ 190,728	\$ 195,871
Electric	1,147,095	1,241,916
Sewer	143,868	146,426
Telecom	86,567	88,167
Interest	10,013	9,702
Total Receipts	1,578,271	1,682,079
Disbursements:		
Operating Disbursements:		
Water	184,896	224,291
Electric	937,166	1,019,689
Sewer	140,167	144,766
Telecom	86,774	83,313
Total Disbursements	1,349,003	1,472,059
Change in Cash Basis Net Position - Before Transfers	229,268	210,020
Net Transfers	(230,718)	(252,898)
Change in Cash Basis Net Position	(1,450)	(42,878)
Cash Basis Net Position - Beginning of Year	1,836,289	1,879,167
Cash Basis Net Position - End of Year	\$ 1,834,839	\$ 1,836,289

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$8,561 to \$206,005 due to a decrease in the operating receipts of \$5,143. The overall expenses were less and the transfers out remained the same.
- The Electric Fund cash balance decreased by \$9,569 to \$1,205,687. Operating expenses decreased but, the transfers out increased by \$52,103.
- The Sewer Fund cash balance increased \$15,070 due to a decrease in operating expenses.
- Telecom Fund cash balance increased by \$1,610 to \$359,547. The City did not collect any retained earnings from TCA. The increase is due to interest collected on the fund.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. This amendment was approved on May 18, 2015 and resulted in an increase in budgeted disbursements of \$500. The City had sufficient cash balances to absorb these additional costs. Also authorized with this budget amendment was a transfer from the Electric Fund to the General Fund for \$100,000 for the bike path and a transfer from the Electric Fund to the West Lot Capital Project of \$60,000 to purchase the land.

DEBT ADMINISTRATION

A comparison of the City's debt at June 30, 2014 and June 30, 2015 follows:

	Year Ended June 30,	
	2015	2014
General Obligation (Sewer Project)	\$ 265,000	\$ 300,000
Business Park	120,000	175,000
Telecom	255,193	335,046
Electric	-	115,000
Sewer Relining	360,000	385,000
Total	\$ 1,000,193	\$ 1,310,046

ECONOMIC FACTORS

The City continues with the replacement of aging equipment which will need to be replaced in the coming years.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, contact Sandy Fritz, City Clerk, 127 S. Main St. Paullina, Iowa 51046, (712) 949-3428.

BASIC FINANCIAL STATEMENTS

CITY OF PAULLINA, IOWA
STATEMENT OF ACTIVITIES AND NET POSITION - CASH BASIS
As of and For the Year Ended June 30, 2015

Functions/Programs	Disbursements	Program Receipts			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
Governmental Activities:					
Public Safety	\$ 219,439	\$ 57,988	\$ 18,275	\$ -	
Public Works	169,822	90,164	109,806	-	
Health and Social Services	4,000	-	-	-	
Culture and Recreation	130,587	3,007	-	-	
Community and Economic Development	317	-	-	-	
General Government	113,699	24,498	-	-	
Capital Outlay	154,235	-	-	-	
Principal	90,000	-	-	-	
Interest	13,335	-	-	-	
Total governmental activities	<u>895,434</u>	<u>175,657</u>	<u>128,081</u>	<u>-</u>	
Business-Type Activities:					
Water Utility	184,896	190,728	-	-	
Sewer Utility	140,167	143,868	-	-	
Electric Utility	937,166	1,147,095	-	-	
Telecom	86,774	86,567	-	-	
Total Business-Type Activities:	<u>1,349,003</u>	<u>1,568,258</u>	<u>-</u>	<u>-</u>	
Total Primary Government	<u>\$ 2,244,437</u>	<u>\$ 1,743,915</u>	<u>\$ 128,081</u>	<u>\$ -</u>	

General Receipts:
Property taxes
Tax Increment Financing
Local Option Sales Tax
Special Assessments
Interest
Sale of Assets
Miscellaneous
Interfund Transfers
Total general receipts and transfers
Change in cash basis net position
Cash basis net position - beginning
Cash basis net position - ending

Cash Basis Net Position
Restricted:
Streets
Debt Service
Employee Benefits
Unrestricted
Total Cash Basis Net Position

Exhibit A

Net (Disbursements) Receipts and Changes in Net Position		
Governmental Activities	Business-Type Activities	Total
\$ (143,176)		\$ (143,176)
30,148		30,148
(4,000)		(4,000)
(127,580)		(127,580)
(317)		(317)
(89,201)		(89,201)
(154,235)		(154,235)
(90,000)		(90,000)
(13,335)		(13,335)
<u>(591,696)</u>		<u>(591,696)</u>
	\$ 5,832	5,832
	3,701	3,701
	209,929	209,929
	(207)	(207)
	<u>219,255</u>	<u>219,255</u>
<u>(591,696)</u>	<u>219,255</u>	<u>(372,441)</u>
293,977	-	293,977
7,975	-	7,975
106,719	-	106,719
3,096	-	3,096
5,443	10,013	15,456
44,028	-	44,028
28,280	-	28,280
230,718	(230,718)	-
<u>720,236</u>	<u>(220,705)</u>	<u>499,531</u>
128,540	(1,450)	127,090
1,035,536	1,836,289	2,871,825
<u>\$ 1,164,076</u>	<u>\$ 1,834,839</u>	<u>\$ 2,998,915</u>
\$ 346,729	\$ -	\$ 346,729
112,047	112,035	224,082
101,424	-	101,424
603,876	1,722,804	2,326,680
<u>\$ 1,164,076</u>	<u>\$ 1,834,839</u>	<u>\$ 2,998,915</u>

See Accompanying Notes to Financial Statements

CITY OF PAULLINA, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
Governmental Funds
As of and For the Year Ended June 30, 2015

	General	Special Revenue Road Use Tax	Capital Project Business Park
Receipts:			
Property Taxes	\$ 228,184	\$ -	\$ -
Special Assessments	-	-	-
Licenses and Permits	3,464	-	-
Intergovernmental	26,372	109,806	-
Charges for Services	122,131	-	-
Contributions	28,879	-	-
Tax Increment Financing	-	-	-
Local Option Sales Tax	-	-	-
Rental of City Property	16,401	-	-
Interest on Investments	2,133	-	1,800
Miscellaneous	18,365	-	6,600
Total Receipts	445,929	109,806	8,400
Disbursements:			
Public Safety	191,376	-	-
Public Works	140,344	29,325	-
Health and Social Services	4,000	-	-
Culture and Recreation	124,965	-	-
Community and Economic Development	317	-	-
General Government	100,104	-	-
Capital Projects	-	-	40,786
Debt Service:			
Principal Retirement	-	-	-
Interest	-	-	-
Total Disbursements	561,106	29,325	40,786
Excess (Deficiency) of Receipts to Disbursements	(115,177)	80,481	(32,386)
Other financing sources (uses):			
Sale of Assets	1,565	-	27,540
Transfers In	222,803	-	-
Transfers Out	(16,525)	-	-
Total other financing sources	207,843	-	27,540
Change in Cash Balances	92,666	80,481	(4,846)
Cash Balances Beginning of Year	157,874	266,248	369,687
Cash Balances End of Year	\$ 250,540	\$ 346,729	\$ 364,841
Cash Basis Fund Balances			
Restricted for:			
Debt Service	\$ -	\$ -	\$ -
Streets	-	346,729	-
Employee Benefits	-	-	-
Assigned to:			
Capital Improvements	-	-	364,841
Library	53,365	-	-
Fire Department	64,036	-	-
Unassigned	133,139	-	-
Total Cash Basis Fund Balances	\$ 250,540	\$ 346,729	\$ 364,841

Exhibit B

Debt Service	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 65,793	\$ 293,977
-	3,096	3,096
-	-	3,464
-	-	136,178
-	-	122,131
-	-	28,879
-	7,975	7,975
-	106,719	106,719
-	-	16,401
871	639	5,443
-	-	24,965
871	184,222	749,228
-	28,063	219,439
-	153	169,822
-	-	4,000
-	5,622	130,587
-	-	317
-	13,595	113,699
-	113,449	154,235
90,000	-	90,000
13,335	-	13,335
103,335	160,882	895,434
(102,464)	23,340	(146,206)
-	14,923	44,028
93,366	70,672	386,841
(18,026)	(121,572)	(156,123)
75,340	(35,977)	274,746
(27,124)	(12,637)	128,540
139,171	102,556	1,035,536
\$ 112,047	\$ 89,919	\$ 1,164,076
\$ 112,047	\$ -	\$ 112,047
-	-	346,729
-	101,423	101,423
-	40,521	405,362
-	-	53,365
-	-	64,036
-	(52,025)	81,114
\$ 112,047	\$ 89,919	\$ 1,164,076

CITY OF PAULLINA, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
Proprietary Funds
As of and For the Year Ended June 30, 2015

	Business Type Activities	
	Water Utility	Electric Utility
Operating Receipts:		
Charges for Services	\$ 190,728	\$ 1,147,095
Total Operating Receipts	<u>190,728</u>	<u>1,147,095</u>
Operating Disbursements:		
Purchased Power	-	493,169
Employee Services	81,606	190,702
Distribution / Collection	14,166	7,671
Supplies	38,097	61,639
Repairs	23,007	5,578
Administrative and General	28,020	60,492
Total Operating Disbursements	<u>184,896</u>	<u>819,251</u>
Excess (Deficiency) of Receipts Over Disbursements	5,832	327,844
Non-Operating Receipts (Disbursements):		
Interest Income	1,607	6,261
Interest Expense	-	(2,915)
Principal Payments	-	(115,000)
Total Non-Operating Receipts (Disbursements)	<u>1,607</u>	<u>(111,654)</u>
Excess (Deficiency) of Receipts Over Disbursements	7,439	216,190
Transfers In	-	16,525
Transfers Out	<u>(16,000)</u>	<u>(242,284)</u>
Change in Cash Balances	(8,561)	(9,569)
Cash Balances Beginning of Year	<u>214,566</u>	<u>1,215,256</u>
Cash Balances End of Year	<u><u>206,005</u></u>	<u><u>1,205,687</u></u>
Cash Basis Fund Balances		
Restricted for Debt Service	-	-
Unrestricted	206,005	1,205,687
Total Cash Basis Fund Balances	<u>\$ 206,005</u>	<u>\$ 1,205,687</u>

See Accompanying Notes to Financial Statements

Exhibit C

Business Type Activities		
Sewer Utility	Telecom	Total
\$ 143,868	\$ 86,567	\$ 1,568,258
143,868	86,567	1,568,258
-	-	493,169
63,839	-	336,147
24,269	-	46,106
8,392	-	108,128
1,863	-	30,448
4,291	-	92,803
102,654	-	1,106,801
41,214	86,567	461,457
328	1,817	10,013
(12,513)	(6,921)	(22,349)
(25,000)	(79,853)	(219,853)
(37,185)	(84,957)	(232,189)
4,029	1,610	229,268
11,041	-	27,566
-	-	(258,284)
15,070	1,610	(1,450)
48,530	357,937	1,836,289
63,600	359,547	1,834,839
-	112,035	112,035
63,600	247,512	1,722,804
\$ 63,600	\$ 359,547	\$ 1,834,839

See Accompanying Notes to Financial Statements

CITY OF PAULLINA, IOWA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Paullina is a political subdivision of the State of Iowa located in O'Brien County. It was first incorporated in 1883 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements and general administrative services. The City also provides water, sewer, electrical, and cable TV, for its citizens.

A. Reporting Entity

For Financial reporting purposes, the City of Paullina has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City of Paullina has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizens of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: County Emergency Management Commission, County Landfill Board, and County Economic Development Board.

B. Basis of Presentation

Government-wide Financial Statements – The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in three categories:

Nonexpendable restricted net position is subject to externally imposed stipulations which require them to be maintained permanently by the City. The City currently has no nonspendable restricted net position.

Expendable restricted net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

CITY OF PAULLINA, IOWA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management, which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

Debt Service:

The Debt Service fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

Capital Projects:

The Business Park fund is utilized by the City to work with its developers to attract new businesses to the Paullina area and to continue to develop the City's Business Park.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Electric Fund accounts for the operation and maintenance of the City's electric system.

CITY OF PAULLINA, IOWA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Telecom Fund accounts for the operations of the cable television system.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principals.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there is both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances:

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned - Amounts the Council intends to use for specific purposes.

Unassigned - All amounts not included in other spendable classifications.

Fund Balance amounts represent the nature of the net resources that are reported in a governmental fund. When the city incurs an expenditure and both restricted and unrestricted amounts are available, the City considers restricted amounts to have been spent. When the City incurs an expenditure for an unrestricted amount, assigned amounts are reduced first, followed by unassigned amounts for purposes in which any of those unrestricted fund balance classifications could be used

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

CITY OF PAULLINA, IOWA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

Note 2 – CASH AND POOLED INVESTMENTS

The City's deposits at June 30, 2015 were entirely covered by Federal depository insurance, or by the state sinking fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments at June 30, 2015; however the City's time deposits were as follows:

	<u>Maturities</u>	
Certificates of Deposit	07/15/15 – 06/25/16	<u>\$400,873</u>

Interest Rate Risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

NOTE 3 – BONDS AND NOTES PAYABLE

The City's computed legal debt limit as of June 30, 2015, is \$2,030,526 of which \$385,000 is committed for outstanding general obligation debt.

The following is a summary of bond transactions of the City for the year ended June 30, 2015:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
	<u>Bonds and Notes Payable by Debt Service Fund</u>	<u>Bonds and Notes Paid by Enterprise Funds</u>
Primary Government		
Bonds and notes payable July 1, 2014	\$ 475,000	\$ 835,046
Plus: bonds and notes issued	-	-
Less: payments	(90,000)	(219,853)
Bonds and notes payable June 30, 2015	<u>\$ 385,000</u>	<u>\$ 615,193</u>
Due within one year	<u>\$ 95,000</u>	<u>\$ 105,000</u>

CITY OF PAULLINA, IOWA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 3 – BONDS AND NOTES PAYABLE (CONTINUED)

The City of Paullina had the following outstanding bonds as of June 30, 2015:

Bond	Date of Issue	Interest Rate	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2015
General Obligation	04/04/12	.75% - 2.10%	2022	\$35,000 - \$40,000	\$ 370,000	\$ 265,000
Business Park	09/14/06	3.80 - 4.25%	2017	\$45,000 - \$60,000	515,000	120,000
Telecom	10/04/12	2%	2018	\$75,000 - \$90,000	485,000	255,193
Sewer Relining	12/01/07	3.00%	2027	\$21,000 - \$35,000	520,000	360,000
Total Bonds Due					<u>\$ 1,890,000</u>	<u>\$ 1,000,193</u>

Annual debt service requirements to maturity of General Obligation Bonds and Notes, revolving loan fund loans, special assessment notes and Revenue Capital Loan Notes are as follows:

Year Ending June 30	General Obligation Bonds and Notes		Business Park Capital Loan Note		Total Governmental	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 35,000	\$ 4,778	\$ 60,000	\$ 5,040	\$ 95,000	\$ 9,818
2017	35,000	4,305	60,000	2,550	95,000	6,855
2018	35,000	3,833	-	-	35,000	3,833
2019	40,000	3,360	-	-	40,000	3,360
2020	40,000	2,520	-	-	40,000	2,520
2021 – 2025	80,000	2,520	-	-	80,000	2,520
Total	<u>\$265,000</u>	<u>\$ 21,316</u>	<u>\$ 120,000</u>	<u>\$ 7,590</u>	<u>\$385,000</u>	<u>\$ 28,906</u>

	Sewer Relining Project Revenue Capital Loan Issued 8-30-07		Telecommunications Revenue Refunding Capital Loan Notes Issued 10-4-12		Total Business Type	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$25,000	\$ 10,800	\$ 80,000	\$ 5,000	\$ 105,000	\$ 15,800
2017	26,000	10,050	85,000	3,400	111,000	13,450
2018	27,000	9,270	90,193	1,700	117,193	10,970
2019	28,000	8,460	-	-	28,000	8,460
2020	29,000	7,620	-	-	29,000	7,620
2021 – 2025	156,000	24,630	-	-	156,000	24,630
2026 – 2030	69,000	3,120	-	-	69,000	3,120
Total	<u>\$360,000</u>	<u>\$ 73,950</u>	<u>\$255,193</u>	<u>\$ 10,100</u>	<u>\$615,193</u>	<u>\$84,050</u>

In September 2006, the City issued \$515,000 of bond anticipation notes to finance the development of the Business Park. The notes mature June 1, 2017 and accrue interest at up to 4.25%. Payments for these bonds will come from the Debt Service Fund and the Business Park Fund.

In January 2011, the City was authorized to issue bond anticipation notes to finance the planning and repairs and maintenance to the City's sewer system. The sewer system update began in April 2012 and was completed in August 2012 with bonds originally issued in the amount of \$520,000 to mature in 2027.

**CITY OF PAULLINA, IOWA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 3 – BONDS AND NOTES PAYABLE (CONTINUED)

In April 2012, the City issued \$370,000 of General Obligation bonds to fund sewer system repair and maintenance. The 2012 bond carries an average interest rate of 1.77% over ten years and matures in 2022.

In October 2012, the City issued \$410,000 Telecommunications Revenue Refunding Capital Loan Notes to refund the 2004 Telecommunications Revenue Capital Loan Notes dated April 1, 2004. The 2012 bond carries an interest rate of 2% over five years and matures in 2018.

NOTE 4 – PENSION PLAN – IOWA PUBLIC EMPLOYEES RETIREMENT SYSTEMS (IPERS)

Plan Description - IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa, 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A regular member may retire at normal retirement age and receive monthly benefits without an early retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits – A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal

**CITY OF PAULLINA, IOWA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

**NOTE 4 – PENSION PLAN – IOWA PUBLIC EMPLOYEES RETIREMENT SYSTEMS (IPERS)
(CONTINUED)**

to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions – Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, regular members contributed 5.95 percent of pay and the City contributed 8.93 percent for a total rate of 14.88 percent. Protective occupation members contributed 6.76 percent of pay and the City Contributed 10.14 percent for a total rate of 16.80 percent.

The City's total contributions to IPERS for the year ended June 30, 2015 were \$32,723.

Collective Net Pension Liabilities, Collective Pension Expense, and Collective Deferred Outflows of Resources and Collective Deferred Inflows of Resources Related to Pensions – At June 30, 2015, the City's liability for its proportionate share of the collective net pension liability totaled \$166,003. The collective net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the collective net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the City's proportion was 0.0041858 percent, which was a decrease of 0.0003349 percent from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015 the City collective pension expense, collective deferred outflows and collective deferred inflows totaled \$15,965, \$10,254 and \$94,298 respectively.

Actuarial Assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3.00 percent per annum
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00 percent, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50 percent, compounded annually, net of investment expense, including inflation

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above. Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

CITY OF PAULLINA, IOWA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 4 – PENSION PLAN – IOWA PUBLIC EMPLOYEES RETIREMENT SYSTEMS (IPERS)
(CONTINUED)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	23%	6.31
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	(0.69)
Total	<u>100%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	<u>1% Decrease (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
City's proportionate share of the net pension liability	\$ 376,289	\$ 166,003	\$ (11,436)

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

CITY OF PAULLINA, IOWA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 5 – RISK MANAGEMENT

The City of Paullina is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 6 – TELECOMMUNICATIONS PROJECT

On May 2, 1999 the City of Paullina entered into a Joint Public Improvement agreement with other communities in O'Brien County, under Chapter 28E of the Code of Iowa, to acquire property and construct facilities to provide telecommunication services to the cities. Each party is responsible for retiring its portion of the debt incurred. The Community Cable Television Agency of O'Brien County is controlled by a jointly appointed Board of Directors and is operated apart from the City's operations. The financial information for the Community Cable Television Agency is not included in the City's financial statements.

NOTE 7 – INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2015, is as follows:

Fund	Transfers In	Transfers Out
General	\$ 222,803	\$ 16,525
Debt Service	93,366	18,026
Emergency	-	6,862
Employee Benefits	10,672	-
Urban Renewal – TIF	-	7,991
West Lot	60,000	-
Local Option Sales Tax	-	106,719
Water	-	16,000
Electric	16,525	242,284
Sewer	11,041	-
	<u>\$ 414,407</u>	<u>\$ 414,407</u>

Transfers are used to:

1. Move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them.
2. Move revenues restricted to debt service from the fund collecting the revenues to the debt service fund as debt service payments become due.

NOTE 8 – SUBSEQUENT EVENTS

In August 2015, the City secured a \$1,150,000 line of credit in order to pay for a street project and entered into a construction contract for \$1,354,605 for the same street project. The City will use contributions from the State and County as well as special assessments to pay down the line of credit.

OTHER INFORMATION

CITY OF PAULLINA, IOWA
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS,
DISBURSEMENTS AND CHANGES IN BALANCES BUDGET AND ACTUAL
(CASH BASIS)- ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
For the Year Ended June 30, 2015

	Budgeted Amount			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Receipts:				
Taxes	\$ 284,789	\$ 284,789	\$ 293,977	\$ 9,188
Special Assessments	3,500	3,500	3,096	(404)
Licenses and Permits	3,090	3,090	3,464	374
Intergovernmental	319,632	319,632	136,178	(183,454)
Charges for Services	1,712,090	1,712,090	1,690,389	(21,701)
Fines and Forfeits	-	-	-	-
Contributions	-	-	28,879	28,879
TIF Revenue	8,032	8,032	7,975	(57)
Local Option Sales Tax	106,100	106,100	106,719	619
Rental of City Property	22,020	22,020	16,401	(5,619)
Interest	20,000	20,000	15,456	(4,544)
Miscellaneous	34,300	34,300	24,965	(9,335)
Total Receipts	2,513,553	2,513,553	2,327,499	(186,054)
Disbursements				
Public Safety	237,532	237,532	219,439	18,093
Public Works	271,002	271,002	169,822	101,180
Health and Social Services	4,000	4,000	4,000	-
Culture and Recreation	161,788	161,788	130,587	31,201
Community and Economic Development	3,000	3,000	317	2,683
General Government	121,230	121,230	113,699	7,531
Capital Projects	318,700	318,700	154,235	164,465
Debt Service				
Principal Retirement	90,000	90,000	90,000	-
Interest	13,335	13,835	13,335	500
Business Type / Enterprises	1,742,081	1,742,081	1,349,003	393,078
Total Disbursements	2,962,668	2,963,168	2,244,437	718,731
Excess (deficiency) of receipts over disbursements	(449,115)	(449,615)	83,062	532,677
Other financing sources (uses):				
Proceeds from Refunding Debt Financing	-	-	-	-
Payments on Refunded Bonds	-	-	-	-
Sale of Assets	1,500	1,500	44,028	42,528
Transfers In	374,549	534,549	414,407	(120,142)
Transfers (Out)	(374,549)	(534,549)	(414,407)	120,142
Total other financing sources (uses)	1,500	1,500	44,028	42,528
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(447,615)	(448,115)	127,090	575,205
Balances Beginning of Year	2,871,825	2,871,825	2,871,825	-
Balances End of Year	\$ 2,424,210	\$ 2,423,710	\$ 2,998,915	\$ 575,205

CITY OF PAULLINA, IOWA
NOTES TO OTHER INFORMATION – BUDGETARY REPORTING
JUNE 30, 2015

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the Internal Service Fund. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, a budget amendment increased budget disbursements by \$500. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2015, disbursements did not exceed amounts budgeted for any function.

CITY OF PAULLINA, IOWA
SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -
ALL GOVERNMENTAL FUNDS
For the Four Years Ended
June 30, 2015

	2015	2014	2013	2012
Receipts:				
Property tax	\$ 293,977	\$ 264,547	\$ 233,032	\$ 219,116
Tax increment financing revenue	7,975	7,494	7,328	746
Local Option Sales Tax	106,719	109,149	108,462	107,108
Licenses and permits	3,464	2,869	2,622	2,616
Use of money and property	21,844	21,872	25,187	33,186
Intergovernmental	136,178	139,327	339,597	249,681
Charges for service	122,131	118,176	112,172	108,804
Special Assessments	3,096	3,278	3,459	960
Miscellaneous	53,844	78,939	107,546	47,302
Proceeds from Debt Financing	-	-	-	369,135
Sale of Capital Assets	44,028	301,665	1,256	1,500
Total	793,256	1,047,316	940,661	1,140,154
Disbursements:				
Operating:				
Public safety	219,439	273,673	254,980	355,539
Public works	169,822	169,761	234,783	234,636
Health and Social Services	4,000	3,600	4,000	-
Culture and recreation	130,587	163,310	81,530	94,287
Community and economic development	317	26,708	1,395	2,536
General government	113,699	109,601	66,071	54,020
Debt service	103,335	105,925	104,069	170,534
Capital projects	154,235	314,703	224,325	446,575
Total	\$ 895,434	\$ 1,167,281	\$ 971,153	\$ 1,358,127

CITY OF PAULLINA
 SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF
 THE NET PENSION LIABILITY
 IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM LAST FISCAL YEAR*
 OTHER INFORMATION
 FOR THE YEAR ENDED JUNE 30, 2015

	2015
City's proportion of the net pension liability	.0041858%
City's proportionate share of the net pension liability	\$ 166,003
City's covered-employee payroll	\$ 390,727
City's proportionate share of the net pension liability as a percentage of its covered employee payroll	42.40%
Plan fiduciary net pension as a percentage of the total pension liability	87.61%

*The amounts presented for each fiscal year were determined as of June 30.

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

**CITY OF PAULLINA
SCHEDULE OF THE CITY CONTRIBUTIONS
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
LAST TEN YEARS
OTHER INFORMATION
FOR THE YEAR ENDED JUNE 30, 2015**

	2015	2014	2013	2012	2011
Statutorily required contribution	\$ 32,723	\$ 36,662	\$ 32,907	\$ 32,640	\$ 28,048
Contributions in relation to the statutorily required contribution	(32,723)	(36,662)	(32,907)	(32,640)	(28,048)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
City's covered employee payroll	\$ 359,499	\$ 400,736	\$ 365,237	\$ 383,938	\$ 368,181
Contributions as a percentage of covered-employee payroll	9.10%	9.15%	9.01%	8.50%	7.62%

	2010	2009	2008	2007	2006
Statutorily required contribution	\$ 25,576	\$ 17,772	\$ 16,250	\$ 13,673	\$ 12,742
Contributions in relation to the statutorily required contribution	(25,576)	(17,772)	(16,250)	(13,673)	(12,742)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
City's covered employee payroll	\$ 355,808	\$ 278,834	\$ 268,602	\$ 237,793	\$ 221,607
Contributions as a percentage of covered-employee payroll	7.19%	6.37%	6.05%	5.75%	5.75%

**CITY OF PAULLINA
NOTES TO OTHER INFORMATION –
PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2015**

Changes of Benefit Terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of Assumptions

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent.
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

**CITY OF PAULLINA
NOTES TO OTHER INFORMATION --
PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2015**

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

SUPPLEMENTARY INFORMATION

CITY OF PAULLINA, IOWA
COMBINING STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
Governmental Nonmajor Funds
As of and For the Year Ended June 30, 2015

	Special Revenue Funds			
	Emergency	Employee Benefits	Local Option Sales Tax	Urban Renewal Tax Increment
Receipts:				
Property Taxes	\$ 6,847	\$ 58,946	\$ -	\$ -
Special Assessments	-	-	-	-
Tax Increment Financing	-	-	-	7,975
Local Option Sales Tax	-	-	106,719	-
Interest on Investments	15	457	-	16
Total Receipts	6,862	59,403	106,719	7,991
Disbursements:				
Public Safety	-	28,063	-	-
Public Works	-	153	-	-
Culture and Recreation	-	5,622	-	-
General Government	-	13,595	-	-
Capital Projects	-	-	-	-
Total Disbursements	-	47,433	-	-
Excess (Deficiency) of Receipts over Disbursements	6,862	11,970	106,719	7,991
Other financing sources (uses):				
Sale of Assets	-	-	-	-
Transfers In	-	10,672	-	-
Transfers Out	(6,862)	-	(106,719)	(7,991)
Total other financing sources	(6,862)	10,672	(106,719)	(7,991)
Change in Cash Balances	-	22,642	-	-
Cash Balances Beginning of Year	-	78,781	-	-
Increase in Reserve for Inventory	-	-	-	-
Cash Balances End of Year	\$ -	\$ 101,423	\$ -	\$ -
Cash Basis Fund Balances				
Restricted For:				
Employee Benefits	\$ -	\$ 101,423	\$ -	\$ -
Assigned To:				
Capital Improvements	-	-	-	-
Unassigned:	-	-	-	-
Total Cash Basis Fund Balances	\$ -	\$ 101,423	\$ -	\$ -

Schedule 1

Capital Project Funds					Total Governmental Nonmajor Funds
North Mickley Street	Maple Street	Iowa State Bank	West Lot	CDBG Housing Rehab	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 65,793
3,096	-	-	-	-	3,096
-	-	-	-	-	7,975
-	-	-	-	-	106,719
130	-	21	-	-	639
3,226	-	21	-	-	184,222
-	-	-	-	-	28,063
-	-	-	-	-	153
-	-	-	-	-	5,622
-	-	-	-	-	13,595
-	51,484	1,424	60,541	-	113,449
-	51,484	1,424	60,541	-	160,882
3,226	(51,484)	(1,403)	(60,541)	-	23,340
-	-	14,923	-	-	14,923
-	-	-	60,000	-	70,672
-	-	-	-	-	(121,572)
-	-	14,923	60,000	-	(35,977)
3,226	(51,484)	13,520	(541)	-	(12,637)
23,695	-	-	-	80	102,556
-	-	-	-	-	-
\$ 26,921	\$ (51,484)	\$ 13,520	\$ (541)	\$ 80	\$ 89,919
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 101,423
26,921	-	13,520	-	80	40,521
-	(51,484)	-	(541)	-	(52,025)
\$ 26,921	\$ (51,484)	\$ 13,520	\$ (541)	\$ 80	\$ 89,919

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the City Council
City of Paullina
Paullina, Iowa

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Paullina, Iowa, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Paullina, Iowa's basic financial statements, and have issued our report thereon dated November 13, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Paullina, Iowa's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Paullina, Iowa's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Paullina, Iowa's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings as items II-A-15 and II-B-15 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Paullina, Iowa's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2015 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matter are not intended to constitute legal interpretation of those statutes.

City of Paullina, Iowa's Responses to Findings

The city of Paullina's responses to findings identified in our audit are described in the accompanying Schedule of Findings. We did not audit the City of Paullina; Iowa's responses and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by the personnel of the City of Paullina during the course of our audit. If you have any questions concerning any of the above matters, we would be pleased to discuss them with you at your convenience,

William & Company, P.C.
Certified Public Accountants

Le Mars, Iowa
November 13, 2015

**CITY OF PAULLINA, IOWA
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015**

Part I – Summary of the Independent Auditor's Results:

- (a) Unmodified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles.
- (b) Material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II – Findings Related to the Financial Statements:

MATERIAL WEAKNESSES:

II-A-15 Financial Accounting – Segregation of Duties

Observation – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The City Clerk is involved in almost all phases of the finance operations, including cash receipts listing, bank deposits, check preparation, preparation of journal entries, as well as financial reporting and statements.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials.

Response – The City feels that additional personnel would not be cost effective. However, management will monitor transactions on a regular basis.

Conclusion – Response accepted.

II-B-15 Financial Reporting

Observation – During the audit we identified one instance in the General Fund where property tax receipts were posted as interest income.

Recommendation – With limited personnel, the City should implement procedures to ensure all cash receipts are properly recorded in the financial statements.

Response – The City will double check receipts in the future to ensure that they are properly recorded in the financial statements.

Conclusion – Response accepted.

CITY OF PAULLINA, IOWA
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015

INSTANCES OF NON-COMPLIANCE

No matters were noted.

Part III – Other Findings Related to Statutory Reporting

III-A-15 Certified Budget – Disbursements did not exceed amounts budgeted for any function.

III-B-15 Questionable Disbursement – We noted no disbursements that did not meet the requirements of public purpose as defined in the Attorney General's Opinion dated April 25, 1979.

III-C-15 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

III-D-15 Business Transactions – Business transactions between the City and City officials and/or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction/Description</u>	<u>Amount</u>
Compu Wiz Graphic Solutions, Owned by Council Member, John Ihle	Site Maintenance for the City's Website	\$600 (1)

(1) This transaction may represent a conflict of interest and the City should contact legal council for determination as per Chapter 331.342 (j) of the Code of Iowa. Per City management it was noted that the City's board did approve the transactions.

III-E-15 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

III-F-15 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

III-G-15 Deposits and Investments – We noted no instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policies.

III-H-15 Revenue Bonds and Notes – No instances of non-compliance with the revenue bond and note resolutions were noted.

III-I-15 Telecommunication Services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.

CITY OF PAULLINA, IOWA
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015

Part III – Other Findings Related to Statutory Reporting (Continued)

III-J-15 Debt Service Fund Balance – The City's Debt Service Fund has accumulated a fund balance of \$112,047, an amount in excess of the amount needed.

Recommendation – The City should consider using the amount in the Debt Service Fund to pay debt rather than continuing to levy taxes at the current rates.

Response – There was no Debt Service Levy in 2014 – 2015 to reduce this fund balance.

Conclusion – Response accepted.

III-K-15 Urban Renewal Annual Report – The urban renewal annual report was approved and certified to the Iowa Department of Management on or before December 1.